Office-Supreme Court, U.S.
FILED
JUL 17 1981
ALEXANDER L. STEVAS,
CLERK

No. 80-2118

IN THE

Supreme Court of the United States

October Term, 1980

LOYD S. DRENNAN,

Petitioner,

vs.

SECURITY PACIFIC NATIONAL BANK,

Respondent.

On Petition for Writ of Certiorari to the Supreme Court of the State of California.

RESPONDENT'S BRIEF IN OPPOSITION.

SHEPPARD, MULLIN, RICHTER & HAMPTON,
A Partnership including
Professional Corporations,
GEORGE R. RICHTER, JR.,
WILLIAM M. BURKE,
JEFFREY S. TURNER,
333 South Hope Street, 48th Floor,
Los Angeles, Calif. 90071,
(213) 620-1780,
Attorneys for Respondent.

Parker & Son, Inc., Law Printers, Los Angeles. Phone 724-6622

TABLE OF CONTENTS

Page

Introductory Statement 1

Reasons Why the Writ Should Be Denied 4

I.

The Petition Herein Raises No Substantial Federal Question 4

A. The California Supreme Court Correctly Refused to Require Additional Disclosures Contrary to Federal Law 4

B. The Federal Reserve Board and the Courts Have Consistently and Repeatedly Ruled That Additional Disclosures Such as Those Sought by Petitioner Are Not Required by Regulation Z and Would Confuse Consumers and Detract From Other Required Disclosures 6

C. The California Supreme Court Correctly Applied This Court's Decision in Ford Motor Credit Co. v. Milhollin 9

D. 12 C.F.R. § 226.28(a) Is Inapplicable to This Case 11

E. There Is No Conflict in the Decisional Law Which Would Justify Review by This Court, and There Is No Basis for Review Under Supreme Court Rule 17.1 13

II.

The Opinion of the California Supreme Court Rests on Adequate and Independent State Grounds 14

A. The California Supreme Court Correctly Held That California Common Law Contract of Adhesion Principles Do Not Apply to Disclo-

Page

sure of the Rule of 78's Because Such Principles Were Superseded by Extensive California Legislation 14

B. The California Supreme Court Correctly Held That California Contract of Adhesion Principles Do Not Require the Additional Disclosures Sought by Petitioner 16

III.

Two of the Three "Questions Presented" by Petitioner Are Not Properly Before This Court Because They Were Not Raised in the Lower Courts 18

A. Compliance With Federal Administrative Procedures Was Never an Issue in the Lower Courts 18

B. Petitioner Never Contended in the Lower Courts That a Ruling in Favor of Respondent Would Violate the Fifth or Fourteenth Amendments to the United States Constitution 20

C. Petitioner Did Not Comply With Supreme Court Rule 21.1(h) 20

Conclusion 21

Appendix A. Chronology of Federal Reserve Board Actions Concerning Prepayment Rebates and the Rule of 78's ..... App. p. 1

Appendix B. Listing of All Parent Companies, Subsidiaries and Affiliates of Respondent Security Pacific National Bank (as Required by Supreme Court Rule 28.1) 6

TABLE OF AUTHORITIES

Cases	Page
Anderson Bros. Ford v. Valencia, ... U.S. ...., 49 U.S.L.W. 4635 (June 8, 1981)	11
Avco Corp. v. Aero Lodge No. 735, 390 U.S. 557, rehearing denied, 391 U.S. 929 (1968)	13
Barron v. Mayor of Baltimore, 32 U.S. (7 Pet.) 243 (1833)	20
Berea College v. Kentucky, 211 U.S. 45 (1908)	14
Bone v. Hibernia Bank, 493 F.2d 135 (9th Cir. 1974)	9, 13
Cardinale v. Louisiana, 394 U.S. 437 (1969)	18
Crowell v. Randell, 35 U.S. (10 Pet.) 368 (1836)	18
Drennan v. Security Pacific National Bank, 28 Cal.3d 764 (1981)	1, 15, 16, 17
Equitable Life Assurance Soc. v. Brown, 187 U.S. 308 (1902)	4
Ford Motor Credit Co. v. Cenance, ... U.S. ...., 49 U.S.L.W. 3892 (June 1, 1981) (per curiam)	11
Ford Motor Credit Co. v. Milhollin, 444 U.S. 555 (1980)	9, 10, 11, 13
Fox Film Corp. v. Muller, 296 U.S. 207 (1935)	14
Gantt v. Commonwealth Loan Co., 573 F.2d 520 (8th Cir. 1978)	9
Gillard v. Aetna Finance Co., 414 F. Supp. 737 (E.D. La. 1976)	9
Grant v. Imperial Motors, 539 F.2d 506 (5th Cir. 1976)	9
Gray v. Zurich Ins. Co., 65 Cal. 2d 263 (1966)	17
Henderson v. Kibbe, 431 U.S. 145 (1977)	13

Page

Keller v. Adams-Campbell Co., 264 U.S. 314 (1924) 13

Layne & Bowler Corp. v. Western Well Works, Inc., 261 U.S. 387 (1923) 13

Lego v. Twomey, 404 U.S. 477 (1972) 13

Mason v. General Finance Corp., 542 F.2d 1226 (4th Cir. 1976) 5, 6, 13

Milhollin v. Ford Motor Credit Co., 588 F.2d 753 (9th Cir. 1978), reversed, 444 U.S. 555 (1980) 10

Murdock v. Mayor of Memphis, 87 U.S. (20 Wall.) 590 (1875) 14

People ex rel. State Board of Medical Examiners v. Pacific Health Corp., 12 Cal. 2d 156 (1938), cert. den., 306 U.S. 633 (1939) 16

Roberts v. National School of Radio & Television Broadcasting, 374 F. Supp. 1266 (N.D. Ga. 1974), overruled on other grounds, Mims v. Dixie Finance Corp., 426 F. Supp. 627 (N.D. Ga. 1976) 9

Steven v. Fidelity & Casualty Co., 58 Cal. 2d 862 (1962) 17

Tunkl v. Regents of the University of California, 60 Cal. 2d 92 (1963) 17

Werner v. Southern California Associated Newspapers, 35 Cal. 2d 121 (1950), appeal dismissed, 340 U.S. 910 (1951) 16

Wilson v. Walters, 19 Cal. 2d 111 (1941) 16

Zucht v. King, 260 U.S. 174 (1922) 4

Constitution

United States Constitution, Fifth Amendment 20

United States Constitution, Fourteenth Amendment ... 20

Miscellaneous

Federal Reserve Board Letter of May 24, 1973, Cons. Cred. Guide (CCH) ¶ 31,016 (1969-1974 Tr. Binder) 7, 8

Federal Reserve Board Letter of June 6, 1973, Cons. Cred. Guide (CCH) ¶ 30,983 (1969-1974 Tr. Binder) 8

Federal Reserve Board Letter of September 24, 1980 9

Federal Reserve Board Public Information Letter No. 1168, March 22, 1977, Cons. Cred. Guide (CCH) ¶ 31,561 (1974-1977 Tr. Binder) 8, 9

Regulations

Code of Federal Regulations, Title 12, Sec. 226 (1980) 2

Code of Federal Regulations, Title 12, Sec. 226.6 19

Code of Federal Regulations, Title 12, Sec. 226.6(b) 6, 19

Code of Federal Regulations, Title 12, Sec. 226.6(b)(1)(i) 5

Code of Federal Regulations, Title 12, Sec. 226.6(c) (1980) 5

Code of Federal Regulations, Title 12, Sec. 226.8(b)(7) 7

Code of Federal Regulations, Title 12 Sec. 226.28(a) (1981) 11, 12, 20

Code of Federal Regulations, Title 12, Sec. 226.818 (1980) 7

Code of Federal Regulations, Title 12, Sec. 262 19

Rules

Rules of the United States Supreme Court, Rule 17.1 ..... 13, 14

Page

Rules of the United States Supreme Court, Rule 21.1(h) 20, 21

Statutes

California Civil Code (Rees-Levering Act) Secs. 2981-2984.4 (West) 1, 2, 14

California Civil Code, Sec. 2982(e) 2, 3, 16

California Civil Code, Sec. 2982(g) 2

Depository Institutions Deregulation and Monetary Control Act of 1980 (Pub. L. No. 96-221, 94 Stat. 132 (1980)) 12

Truth in Lending Act, 15 U.S.C. Secs. 1601-1677 (1976) 2

Truth in Lending Act, Sec. 111 (15 U.S.C. § 1610 (1976)) 6, 19

Truth in Lending Act, Sec. 111(a) (15 U.S.C. §1610(a) (1976)) 4, 19

Truth in Lending Simplification and Reform Act (Title VI of Pub. L. No. 96-221, 94 Stat. 132 (1980)) 2, 12, 20

United States Code, Title 15, Sec. 1610(a) (1976 .... 4, 19

United States Code, Title 15, Sec. 1633 19

No. 80-2118

IN THE

Supreme Court of the United States

October Term, 1980

LOYD S. DRENNAN,

Petitioner,

vs.

SECURITY PACIFIC NATIONAL BANK,

Respondent.

On Petition for Writ of Certiorari to the Supreme Court of the State of California.

RESPONDENT'S BRIEF IN OPPOSITION.

To the Honorable Chief Justice and Associate Justices of the Supreme Court of the United States:

Respondent, Security Pacific National Bank, respectfully requests that this Court deny the Petition for Writ of Certiorari seeking review of the Supreme Court of California's unanimous opinion in this case, reported at 28 Cal. 3d 764 (1981).

Introductory Statement.

Although Petitioner's Statement of the Case is basically accurate, certain additional points should be emphasized:

1. Petitioner's mobile home conditional sale contract was subject to California's Rees-Levering Motor Vehicle

Sales and Finance Act ("The Rees-Levering Act"), Cal. Civ. Code §§ 2981-2984.4 (West).

2. The Rees-Levering Act comprehensively regulates both the substantive and disclosure requirements pertaining to motor vehicle conditional sale contracts, and is regularly revised and amended by the California Legislature.

3. Among other things, the Rees-Levering Act requires the creditor to provide the consumer with a rebate of unearned finance charge upon prepayment. The Act expressly authorizes the creditor to compute the rebate according to the Rule of 78's. Rees-Levering Act § 2982(e).

4. The Act does not require the creditor to disclose in detail the meaning or implications of use of the Rule of 78's. Rather, the Act provides that disclosures may be made as required or permitted by Regulation Z.[1] Rees-Levering Act § 2982(g).

5. Petitioner concedes that his contract complied fully with the Act. Petition for Writ of Certiorari, pp. 4-5. Petitioner does not challenge the validity of the Act.

6. Petitioner's contract was also subject to the Truth in Lending Act[2] and Regulation Z, which require only that the method of rebate be identified by name.[3]

7. Petitioner concedes that his contract complied fully with the Truth in Lending Act and Regulation Z. Petition for Writ of Certiorari, pp. 4-5. Petitioner does not challenge the validity of the Truth in Lending Act or Regulation Z.

---

[1]12 C.F.R. § 226 (1980). Unless otherwise noted, all references herein to Regulation Z are to "old" Regulation Z, which was in effect when this case was litigated in the California courts. As discussed in Part I(D) of this Brief, Regulation Z was totally revised and reissued on March 26, 1981 to conform to the provisions of the Truth in Lending Simplification and Reform Act. Revised Regulation Z has prospective application only and is not relevant to this case.

[2]15 U.S.C. §§ 1601-1677 (1976).

[3]See Parts I (A)-(C) of this Brief.

8. Petitioner's sole contention throughout this case has been that the prepayment rebate clause in his contract somehow violates California common law contract of adhesion principles. Petition for Writ of Certiorari, p. 5. However, his litigation posture both as to the nature of the violation alleged and the remedy sought has apparently undergone substantial change since his Complaint was filed.

9. In his Complaint, Petitioner alleged only that the prepayment rebate clause of his contract was "vague, ambiguous and uncertain" and thus "void, and unenforceable."

10. In the Superior Court and the Court of Appeal, Petitioner took the position that Respondent should have provided him with a detailed explanation of the meaning and implications of the Rule of 78's. He never specified what the remedy should be for Respondent's alleged failure to do so (merely holding the rebate clause unenforceable would have accomplished nothing since the Rees-Levering Act would have provided an identical rebate under section 2982(e)).

11. In the California Supreme Court, Petitioner fundamentally changed his litigation posture by conceding that a detailed explanation of the meaning and implications of the Rule of 78's probably would confuse consumers and be of doubtful benefit.[4] Petitioner instead urged the California Supreme Court to require a "simple warning" as to the Rule's effects.[5]

12. Respondent's decision not to include a detailed explanation of the meaning and implications of the Rule of 78's in its contract form was not premised, as Petitioner erroneously contends, on a desire "to prevent meaningful

---

[4]Appellant's Response Brief in the California Supreme Court, p. 17.
[5]Appellant's Response Brief in the California Supreme Court, pp. 15-17. The California Supreme Court refused to require such a warning on the ground it is not required by contract of adhesion principles. See Part II (B) of this Brief.

disclosure of credit terms and to mandate the uninformed use of credit."[6] Rather, it was based on a desire to comply with the detailed and explicit requirements of the Rees-Levering Act, the Truth in Lending Act and Regulation Z.

REASONS WHY THE WRIT SHOULD BE DENIED.

I.

THE PETITION HEREIN RAISES NO SUBSTANTIAL FEDERAL QUESTION.

For Petitioner to properly invoke the jurisdiction of this Court, it is essential that he raise a substantial federal question. If Petitioner's contentions are devoid of merit, or foreclosed by prior decisions of this Court so as to leave no room for real controversy, this Court should not hear the case. *Equitable Life Assurance Soc. v. Brown*, 187 U.S. 308, 311 (1902); *Zucht v. King*, 260 U.S. 174 (1922).

Petitioner has not and cannot satisfy this requirement because, as shown below, his contentions are devoid of merit and expressly foreclosed by a recent decision of this Court.[7]

A. The California Supreme Court Correctly Refused to Require Additional Disclosures Contrary to Federal Law.

To insure that the Truth in Lending Act would not be frustrated by inconsistent state disclosure laws, Congress expressly provided in section 111(a) thereof that state laws requiring disclosure of information in connection with credit transactions are not binding upon a creditor to the extent that they are inconsistent with the provisions of the Act or Regulation Z. 15 U.S.C. § 1610(a) (1976). State laws that provide for inconsistent disclosures of credit information

---

[6]Petition for Writ of Certiorari, p. 5.

[7]The federal preemption issue is discussed in this section of the Brief. Petitioner's "federal administrative procedure" and "due process" claims are discussed in Part III.

are preempted regardless of whether they are statutory or judicial in origin or whether they are imposed as a rule of disclosure or as a rule of substantive contract law. *See Mason v. General Finance Corp.*, 542 F.2d 1226, 1234 (4th Cir. 1976).

Section 226.6(b)(1)(i) of Regulation Z defines as "inconsistent" any state law that "[r]equires a creditor to make disclosures or take actions different from the requirements of this part with respect to form, content, terminology, or time of delivery."

Besides preempting inconsistent state law disclosure requirements, Regulation Z also prohibits creditors from disclosing information in addition to Regulation Z required disclosures if the additional information would "mislead or confuse the consumer . . . or contradict, obscure or detract attention from the information required . . . to be disclosed." 12 C.F.R. § 226.6(c) (1980).

The California Supreme Court correctly concluded that to require a creditor to explain in detail the meaning and implications of the Rule of 78's rebate formula both would be (1) inconsistent with Regulation Z as interpreted by the Federal Reserve Board ("the Board"),[8] because it would require the creditor "to make disclosures or take actions different from the requirements of [Regulation Z] with respect to form, content [and] terminology . . .," and (2) prohibited by section 226.6(c) even if not inconsistent since it would "mislead or confuse the consumer . . . [and]

---

[8]The Board's interpretations of Regulation Z requirements relating to use and disclosure of the Rule of 78's are discussed in Part I (B) of this Brief.

contradict, obscure or detract attention from the information required . . . to be disclosed."[9]

B. The Federal Reserve Board and the Courts Have Consistently and Repeatedly Ruled That Additional Disclosures Such as Those Sought by Petitioner Are Not Required by Regulation Z and Would Confuse Consumers and Detract From Other Required Disclosures.

In his Petition for Writ of Certiorari, Petitioner seeks to convey the erroneous impression that the California Supreme Court decided this case based solely on the text of Section 111 of the Truth in Lending Act (15 U.S.C. § 1610 (1976)), Regulation Z § 226.6(b) and one unofficial staff interpretation letter. Petitioner asserts that the California Supreme Court's ruling was "essentially a matter of first impression since no official Federal Reserve Board interpretation or court ruling had issued on the subject."[10]

This assertion is false. The central question in this case has been the subject of numerous Federal Reserve Board Official Board Interpretations, Official Staff Interpretations, Public Information Letters and cases which establish beyond

---

[9]In *Mason v. General Finance Corp.*, 542 F.2d 1226 (4th Cir. 1976), the court struck down a state law requiring disclosures in addition to those required by Regulation Z. In response to contentions that the state disclosures simply explained and augmented the federal disclosures, the court stated that the additional disclosures "told the borrower more than he need[ed] to know and more than he [could] possibly understand." *Id.* at 1233. In language that could have been written for this case, the court stated:

> "We hold that the Congress may rationally adopt a national loan terminology for the purpose of enabling the comparison of the cost of credit and may require the subordination of state terminology *even though it is true and accurate*." 542 F.2d at 1233 (emphasis added).
>
> . . .
>
> "It is precisely because such true information can be worse than meaningless that the Congress determined upon uniformity of terminology." *Id.*

[10]Petition for Writ of Certiorari, p. 8.

any doubt that a state may not, either by statute or application of common law principles, require additional disclosures of the type sought by Petitioner.[11]

The history of Board actions concerning disclosure of the Rule of 78's reflects a balancing of competing policy considerations. Balanced against the desire to provide consumers with an explanation of the meaning and implications of the Rule of 78's, was the need to keep disclosures simple, uniform and meaningful so that consumers would be encouraged to read disclosure forms and comparison shop for credit. After carefully weighing the competing policy considerations, the Board justifiably concluded that detailed disclosures regarding the Rule of 78's would unduly lengthen and complicate disclosure forms and would be of doubtful utility to consumers. The Board thus opted for limited disclosure of the Rule of 78's under Section 226.8(b)(7) of Regulation Z, and on April 30, 1973, issued an Official Board Interpretation concluding that a creditor need only identify the rebate method employed upon prepayment and need not explain the method. 12 C.F.R. § 226.818 (1980).

The Board's concern that an explanation of the Rule of 78's would confuse consumers and detract from other important disclosures was subsequently expressed in numerous staff letters issued in support of the Board interpretation. Brief excerpts from those letters follow:

> "After reviewing various methods of describing the working of the Rule of 78's, we are convinced that even the most simplified definition of the Rule in a disclosure statement would work to the disadvantage

---

[11] A chronology of the actions of the Federal Reserve Board regarding disclosure of the Rule of 78's is appended to this Brief as Appendix "A."

The California Supreme Court was fully briefed on these numerous Board pronouncements and considered them in rendering its opinion below.

of consumers by distracting their attention from the more important annual percentage rate and finance charge disclosures."[12]

. . .

"[W]hile it is certainly desirable for consumers to be better informed about rebate methods, the Board does not believe that this can be accomplished by the Truth in Lending disclosure statement without detriment to the broader goal of increasing consumer awareness of finance charges and interest rates. . . . It is certain that [additional] language would further complicate disclosures which many claim are already more complicated than desirable to insure consumer understanding."[13]

. . .

"As indicated in § 226.818, Regulation Z does not require disclosure of the complex mathematical descriptions of rebate methods since such could only serve to detract from other important Truth in Lending disclosures. Rather, § 226.818 provides that the requirement of 'rebate identification' is satisfied simply by referring by name to the 'Rule of 78's' or other method, as applicable.

It is staff's opinion that, in order to provide a concise and effective disclosure statement, § 226.8(b)(7) does not require the disclosure of the complex details necessary to allow the consumer to calculate the amount of every possible rebate, regardless of when prepayment in full may occur. Section 226.8(b)(7) simply aims to provide the customer with some basic information; such as, whether or not the customer receives a rebate of the precomputed but unearned finance

---

[12]Federal Reserve Board Letter of May 24, 1973, Cons. Cred. Guide (CCH) ¶ 31,016 (1969-1974 Tr. Binder).

[13]Federal Reserve Board Letter of June 6, 1973, Cons. Cred. Guide (CCH) ¶ 30,983 (1969-1974 Tr. Binder).

charges, and the identification of the method whereby any rebate provided is calculated."[14]

. . .

"[I]t is the staff's opinion that a state law (whether statutory or judicially imposed) requiring disclosure of the meaning and implication of the Rule of 78's formula would be inconsistent with Regulation Z, under § 226.6(b)(1). This opinion is based on the fact that the content of such a disclosure would be different from what is required by §§ 226.8(b)(7) and 226.818, and could detract from the other required disclosures.[15]

The Official Board Interpretation has also received widespread judicial support. *See, e.g., Bone v. Hibernia Bank,* 493 F.2d 135, 139 (9th Cir. 1974); *Gantt v. Commonwealth Loan Co.,* 573 F.2d 520 (8th Cir. 1978); *Grant v. Imperial Motors,* 539 F.2d 506, 509 (5th Cir. 1976); *Gillard v. Aetna Finance Co.,* 414 F. Supp. 737, 746 (E.D. La. 1976); *Roberts v. National School of Radio & Television Broadcasting,* 374 F. Supp. 1266, 1269 (N.D. Ga. 1974), *overruled on other grounds, Mims v. Dixie Finance Corp.,* 426 F. Supp. 627 (N.D. Ga. 1976).

The foregoing authorities show that the additional disclosures sought by Petitioner are not only not required by Regulation Z, but are prohibited by Regulation Z because they are (1) clearly inconsistent with Regulation Z as interpreted by the Board, and (2) would confuse consumers and detract attention from other required disclosures.

C. The California Supreme Court Correctly Applied This Court's Decision in Ford Motor Credit Co. v. Milhollin.

In deferring to the Board's interpretations of Regulation Z, the California Supreme Court correctly applied this

[14]Federal Reserve Board Public Information Letter No. 1168, March 22, 1977, Cons. Cred. Guide (CCH) ¶ 31, 561 (1974-1977 Tr. Binder).

[15]Federal Reserve Board Letter of September 24, 1980 (A copy of this letter was made a part of the record in the California Supreme Court).

Court's recent decision in *Ford Motor Credit Co. v. Milhollin*, 444 U.S. 555 (1980). *Milhollin* involved a claim remarkably similar to the claim made by Petitioner in this case. There, plaintiff claimed that the creditor failed to adequately disclose its method of rebating unearned finance charges upon acceleration. The Board had issued an Official Staff Interpretation and three staff letters which supported the method of disclosure employed by the creditor. Nevertheless, the United States Court of Appeals for the Ninth Circuit rejected the Board's interpretations and held that the creditor should have made different disclosures. *Milhollin v. Ford Motor Credit Co.*, 588 F.2d 753 (9th Cir. 1978), *reversed*, 444 U.S. 555 (1980).

In a unanimous opinion, this Court reversed the Ninth Circuit, and cautioned against judicial creativity in the context of consumer credit disclosure legislation where the absence of additional disclosure requirements may signal a legislative decision not to require disclosure:

> "It is a commonplace that courts will further legislative goals by filling the interstitial silences within a statute or regulation. Because legislators cannot foresee all eventualities, judges must decide unanticipated cases by extrapolating from related statutes or administrative provisions. But legislative silence is not always the result of a lack of prescience; it may instead betoken permission or, perhaps, considered abstention from regulation. In that event, judges are not accredited to supersede Congress or the appropriate agency by embellishing upon the regulatory scheme. Accordingly, caution must temper judicial creativity in the face of legislative or regulatory silence." 444 U.S. at 565.

This Court held that the creditor was not required to make the additional disclosures demanded by plaintiff, relying on the Board's staff interpretations, which were held to be

binding upon courts unless they are "demonstrably irrational." 444 U.S. at 565. In articulating this strict standard of deference, this Court acknowledged and approved the Board's quest for simplicity and meaningfulness in credit disclosures:

> "The concept of 'meaningful disclosure' that animates TILA, . . . cannot be applied in the abstract. *Meaningful* disclosure does not mean *more* disclosure. Rather, it describes a balance between 'competing considerations of complete disclosure . . . and the need to avoid . . . [informational overload.]' " 444 U.S. at 568 (citations omitted).[16]

Milhollin enunciated two important principles which apply to this case. First, that the Truth in Lending Act was intended to provide consumers with simple, meaningful credit cost disclosures designed to encourage comparison shopping for credit; and that the goals of the Truth in Lending Act should not be frustrated by the imposition of additional disclosure requirements which detract from the basic required disclosures. Second, that the Board has the primary responsibility and expertise to interpret the Truth in Lending Act and Regulation Z, and courts should defer to its interpretations unless they are "demonstrably irrational."

The California Supreme Court correctly applied both of these principles when it refused to impose the additional disclosure requirements sought by Petitioner.

D. 12 C.F.R. § 226.28(a) Is Inapplicable to This Case.

For the first time in this Court, Petitioner relies on 12 C.F.R. § 226.28(a) (1981) to argue that the additional dis-

---

[16]The philosophy that meaningful disclosure does not mean more disclosure was reiterated by this Court in two recent decisions. *Anderson Bros. Ford v. Valencia*, ... U.S. ..., ..., 49 U.S.L.W. 4635, 4639-40 (June 8, 1981); *Ford Motor Credit Co. v. Cenance*, ... U.S. ..., ..., 49 U.S.L.W. 3892, 3893 (June 1, 1981) (per curiam).

closures he seeks are not preempted by federal law because they do not "contradict" federal disclosure requirements. What Petitioner fails to point out is that section 226.28(a) is not applicable to this case.

Section 226.28(a) was issued by the Board on March 26, 1981, as part of a complete revision of Regulation Z designed to implement sweeping changes in Truth in Lending requirements enacted by the Truth in Lending Simplification and Reform Act (including revised provisions dealing with inconsistent state disclosures). The Act (Title VI of the Depository Institutions Deregulation and Monetary Control Act of 1980, Pub.L.No. 96-221, 94 Stat. 132 (1980)) does not take effect until April 1, 1982. Revised Regulation Z became effective April 1, 1981, but creditors may opt to continue to comply with old Regulation Z until April 1, 1982. Because the Act and revised Regulation Z only apply prospectively, section 226.28(a) is not applicable to this case.

Petitioner's contract was executed and disclosures were made to Petitioner based on the Truth in Lending Act and the Regulation Z in effect in 1974. Petitioner commenced this lawsuit in 1977. Every issue in this case, from the Superior Court to the California Supreme Court, was decided under the old Truth in Lending Act and the old Regulation Z. The Truth in Lending Simplification and Reform Act and Revised Regulation Z § 226.28(a) plainly have no application to this case.[17]

---

[17]Even if section 226.28(a) was applicable to this case, the California Supreme Court would still have been compelled to conclude that the disclosures sought by Petitioner "contradict" the disclosure policies consistently enunciated by the Board.

E. There Is No Conflict in the Decisional Law Which Would Justify Review by This Court, and There Is No Basis for Review Under Supreme Court Rule 17.1.

This Court has consistently emphasized that review by writ of certiorari is not a matter of right, but of judicial discretion, and will be granted only when there are special and important reasons, as where there is a conflict in the decisional law of the lower courts, or where a decision is rendered in conflict with opinions of this Court, or where important questions of federal law have not been, but should be, decided by this Court.[18]

None of those considerations apply in the present case. As shown in the preceding sections of this Brief, this case presents no substantial questions of federal law which call for resolution by this Court. On the contrary, the central issue in this case, deference by the California Supreme Court to Board interpretations prohibiting the disclosures sought by Petitioner, was resolved by this Court's recent decision in *Milhollin*.

Nor is the opinion below in conflict with any decisions of the Federal Courts of Appeals.[19] Nor does Petitioner assert any conflict with a decision of the high court of any other state. In fact, Petitioner has not cited, and Respondent is not aware of, any decisions in conflict with the opinion below. The Petition thus fails to satisfy any of the criteria

---

[18]*See generally Layne & Bowler Corp. v. Western Well Works, Inc.*, 261 U.S. 387, 392-93 (1923); *Keller v. Adams-Campbell Co.*, 264 U.S. 314 (1924); *Avco Corp. v. Aero Lodge No. 735*, 390 U.S. 557, 559, *rehearing denied*, 391 U.S. 929 (1968); *Henderson v. Kibbe*, 431 U.S. 145, 152 (1977); *Lego v. Twomey*, 404 U.S. 477, 479 n.1 (1972). The considerations governing review on certiorari are summarized in Supreme Court Rule 17.1.

[19]All applicable circuit decisions, *e.g.*, *Bone v. Hibernia Bank*, 493 F.2d 135 (9th Cir. 1974) and *Mason v. General Finance Corp.*, 542 F.2d 1226 (4th Cir. 1976), are entirely consistent with the opinion below.

set forth in the case law and in this Court's Rule 17.1 which would justify review on writ of certiorari.

II.

THE OPINION OF THE CALIFORNIA SUPREME COURT RESTS ON ADEQUATE AND INDEPENDENT STATE GROUNDS.

This Court has consistently adhered to the principle that it will not review a state court judgment which rests upon adequate and independent state grounds, regardless of whether a federal question is involved. *Murdock v. Mayor of Memphis*, 87 U.S. (20 Wall.) 590, 636 (1875); *Berea College v. Kentucky*, 211 U.S. 45, 53 (1908); *Fox Film Corp. v. Muller*, 296 U.S. 207 (1935).

In the present case, although its decision was based primarily on federal preemption, the California Supreme Court enunciated two distinct, adequate and independent state grounds for its decision which are not reviewable by this Court.

A. The California Supreme Court Correctly Held That California Common Law Contract of Adhesion Principles Do Not Apply to Disclosure of the Rule of 78's Because Such Principles Were Superseded by Extensive California Legislation.

Petitioner concedes that his conditional sale contract was subject to the Rees-Levering Act, and that the contract fully complied with the provisions of that Act.[20] Petitioner has never challenged the validity of the Act, which comprehensively regulates both substantive and disclosure requirements pertaining to motor vehicle conditional sale contracts (and does *not* require the additional disclosures sought by Petitioner). He instead urged the California Supreme Court to *ignore* the Act's comprehensive scheme of regulation and

---

[20]Petition for Writ of Certiorari, pp. 4-5.

judicially impose additional disclosure requirements rejected by the Legislature.

After reviewing in great detail Petitioner's objections to the use and disclosure of the Rule of 78's by Respondent, the California Supreme Court rejected his request for additional disclosures and concluded that:

> "[A]doption [of the Rule of 78's] as the prevailing rule in this state is . . . a legislative decision involving the weighing of policy matters as seen by legislators. Thus we would not be free to substitute our own views for those of the Legislature regarding the desirability of the rule even if plaintiff had sought a determination that it is invalid as a measure of the rebate because it is unfair to the consumer. The common law, which petitioner urges us to apply, is superseded when the Legislature acts. (*People v. Hickman* (1928) 204 Cal. 470, 479; *Lowman v. Stafford* (1964) 226 Cal. App. 2d 31, 39.)
>
> The Legislature has considered the rebate due a buyer on prepayment, the 'Rule of 78's' and the manner of its disclosure a number of times in recent years. (Rees-Levering Act: Stats. 1961, ch. 1626, § 4, pp. 3534, 3537; Stats. 1970, ch. 1003, § 1, pp. 1800, 1803; Unruh Act: Stats. 1969, ch. 625, pp. 1264, 1266; Stats. 1970, ch. 546, § 14, pp. 1040, 1043-1044; Stats. 1971, ch. 1061, § 1, pp. 2022, 2023.) In 1979, it enacted several measures to alleviate the harshness of the rule in certain transactions. Beginning in 1983, Rees-Levering contracts calling for payment in more than 62 months may not utilize the rule to calculate the amount of rebate due a buyer on prepayment. (Stats. 1979, ch. 805, § 19, p. 2880.) As of January 1, 1981, the contract must include the following statement: 'Because the refund [on prepayment] will be figured by the rule of 78's, the time when you prepay may affect the ultimate cost of credit under this agreement.'

(Civ. Code § 2982, subd. (a)(14)(A).) Thus it is clear that the Legislature is aware of the issue surrounding the 'Rule of 78's' and has taken such action as it deems appropriate. We would abuse judicial authority if we were to embellish legislative requirements." 28 Cal. 3d at 779-780 (footnotes and parallel citations omitted).

The California Supreme Court has consistently held that where the Legislature has acted within the bounds of its constitutional authority in regulating a certain field, the court will defer to legislative declarations of public policy. *E.g.*, *People ex rel. State Board of Medical Examiners v. Pacific Health Corp.*, 12 Cal. 2d 156, 161 (1938), *cert. den.*, 306 U.S. 633 (1939); *Werner v. Southern California Associated Newspapers*, 35 Cal. 2d 121, 129 (1950), *appeal dismissed*, 340 U.S. 910 (1951); *Wilson v. Walters*, 19 Cal. 2d 111, 115 (1941). The court acted according to that self-imposed rule of deference to the Legislature when it refused to require the additional disclosures sought by Petitioner.

B. The California Supreme Court Correctly Held That California Contract of Adhesion Principles Do Not Require the Additional Disclosures Sought by Petitioner.

In his Brief to the California Supreme Court, Petitioner conceded that a detailed mathematical explanation of the operation of the "Rule of 78's" would probably confuse more than inform consumers,[21] and instead urged the Cal-

---

[21] Appellant's Response Brief in the California Supreme Court, p. 17. See also *Id.* at pp. 13-16.

This represented a substantial change in Petitioner's litigation posture. As noted in the Introductory Statement herein, Petitioner's Complaint alleged only that Respondent's use of the term "Rule of 78's" was "vague, ambiguous and uncertain" and thus "void, and unenforceable." Petitioner apparently did not consider the fact that, even if the court refused to enforce the rebate clause, he would still have been entitled only to a rebate according to the Rule of 78's, since that is all the Rees-Levering Act requires. Cal. Civ. Code § 2982(e).

Throughout the lower courts, Petitioner argued that Respondent should have disclosed at length and in detail the "meaning and implications" of the Rule of 78's. Only when this case reached the California Supreme Court did Petitioner abandon this contention and instead argue that Respondent should provide a "simple warning" of the Rule's effects or an "example" of its operation.

ifornia Supreme Court to require Respondent to include a "warning" in its contracts as to the effect of use of the rule.[22] In its opinion, the California Supreme Court emphasized that although such a simple "warning" might not be inconsistent with federal law, it is not required by contract of adhesion principles.[23] The court stated:

> "[W]e cannot conclude that a court may impose a requirement for such a warning under the law of adhesion contracts. The warning would not resolve any ambiguity in the meaning of the term 'Rule of 78's' and thus would not cure the only contract defect upon which plaintiff relies." 28 Cal. 3d at 775 (footnote omitted).

The court also stated:

> "[W]hile a statement in or appended to the contract to alert the borrower that the rule may operate to his disadvantage may be desirable and consistent with federal law, the law governing adhesion contracts does not compel such a warning." 28 Cal. 3d at 767.

The California Supreme Court thus held that, *even if* the disclosures sought by Petitioner could be made in a simplified manner which would not confuse consumers or detract attention from federal disclosures, such disclosures are not required under common law contract of adhesion principles.

---

[22]Appellant's Response Brief in the California Supreme Court, pp. 15, 17.

[23]It is noteworthy that no California court has ever employed contract of adhesion principles to "rewrite" a contract to require additional terms or disclosures not originally included in the contract. The remedy in contract of adhesion cases has been limited to construing ambiguous terms against the stronger bargaining party or refusing to enforce exculpatory provisions not adequately disclosed to the consumer, or which were held to be contrary to public policy. *See, e.g., Steven v. Fidelity & Casualty Co.*, 58 Cal. 2d 862, 882-83 (1962); *Gray v. Zurich Ins. Co.*, 65 Cal. 2d 263 (1966); *Tunkl v. Regents of the University of California*, 60 Cal. 2d 92 (1963).

III.

TWO OF THE THREE "QUESTIONS PRESENTED" BY PETITIONER ARE NOT PROPERLY BEFORE THIS COURT BECAUSE THEY WERE NOT RAISED IN THE LOWER COURTS.

Petitioner urges this Court to consider three questions. Only the first of those three questions, however, bears any resemblance to anything that was briefed, argued or decided in the lower courts.

This Court has consistently held that it will not review a question which was not raised in a proper and timely manner in the lower courts. *Cardinale v. Louisiana*, 394 U.S. 437, 438 (1969); *Crowell v. Randell*, 35 U.S. (10 Pet.) 368 (1836). Consistent with that principle, this Court should not consider the second and third questions raised by Petitioner.

A. Compliance With Federal Administrative Procedures Was Never an Issue in the Lower Courts.

In his Petition for Writ of Certiorari, Petitioner for the first time argues that the California Supreme Court somehow erred in reaching the federal preemption issue, and in so doing allegedly denied Petitioner the right to seek an interpretation of Regulation Z from the Board pursuant to "federal administrative procedures."[24]

Petitioner nowhere explains why he failed to raise this argument at any point in the lower courts. The federal preemption issue was fully briefed and argued before the California Supreme Court, and at no time did Petitioner ever contend the California Supreme Court lacked the authority

---

[24]Petition for Writ of Certiorari, pp. 10-11.

to decide the issue. Indeed, even if properly raised, such an assertion would have been untenable.[25]

---

[25]Petitioner's argument on this point is without merit. Apparently, Petitioner is of the view that the California Supreme Court should have ignored the question of federal preemption and decided the case solely on the basis of state law considerations, leaving the issue of federal preemption to be ultimately determined by the Board, which would allegedly guarantee Petitioner "vital procedural rights."

Unfortunately, Petitioner nowhere explains what "vital procedural rights" he is referring to. The statutes and regulations cited by Petitioner do not give him any procedural rights. 15 U.S.C. § 1610(a) is a general provision dealing with the preemptive effect of Truth in Lending on inconsistent state laws. There is nothing in section 1610 which establishes a "procedure" for determining whether state laws are inconsistent with Truth in Lending or Regulation Z. Section 1610 does not give any "procedural" rights to persons such as Petitioner.

15 U.S.C. § 1633 is also a general provision which authorizes the Board to promulgate regulations exempting a state from all requirements of Truth in Lending if the Board determines that the law of the state provides protections to consumers which are adequate and substantially similar to those of Truth in Lending. Section 1633 has nothing to do with this case. Not only does it not set up a "procedure" whereby a private party could seek a determination from the Board that particular disclosure requirements are not inconsistent with Regulation Z, section 1633 deals with the entirely distinct question of the circumstances under which a *state* will be granted a total *exemption* from Truth in Lending.

Petitioner also claims he is entitled to "procedural rights" under 12 C.F.R. § 226.6. Again, even the most cursory examination of this regulation shows that it has nothing to do with "procedures" for determining whether a state disclosure requirement is inconsistent with federal law. As relevant, section 226.6(b) simply *defines* what is an "inconsistent" state disclosure requirement.

Petitioner's cite to 12 C.F.R. § 262 (the Board's rules of procedure) is also inapposite. Those rules of procedure do not set up any "procedure" for an individual to apply to the Board for a determination that a state law disclosure requirement is inconsistent with federal law. Rather, they relate to the promulgation of regulations by the Board, and establish procedures for the Board to follow in taking action on matters which require the approval, authority, determination or permission of the Board. Petitioner has never contended that the Board failed to follow its own rules of procedure in promulgating Regulation Z and the Official Board Interpretation and Staff Interpretations relied on by the California Supreme Court.

(footnote continued on following page)

Because Petitioner failed to raise this issue in the lower courts, it is not a proper subject for review by this Court.

B. Petitioner Never Contended in the Lower Courts That a Ruling in Favor of Respondent Would Violate the Fifth or Fourteenth Amendments to the United States Constitution.

Petitioner also argues for the first time in his Petition that the ruling of the California Supreme Court would somehow deny him "due process."[26]

Petitioner again provides no explanation why his "due process" argument was not raised in the lower courts.[27] Because Petitioner failed to present this question in a timely and appropriate manner, it is not a proper subject for review by this Court.

C. Petitioner Did Not Comply With Supreme Court Rule 21.1(h).

Supreme Court Rule 21.1(h) provides that:

> "If review of the judgment of a state court is sought, the statement of the case shall also specify the stage

---

It is possible that Petitioner has confused the provisions of the Truth in Lending Act and old Regulation Z with new procedures established by the Truth in Lending Simplification and Reform Act and revised Regulation Z. Revised Regulation Z § 226.28(a), discussed above, does create a new procedure whereby an interested party may request that the Board determine whether a state law requirement is inconsistent with the requirements of the Truth in Lending Simplification and Reform Act and revised Regulation Z. However, this new procedure was not in effect at the time this case was litigated in the California courts, and has no application to this case.

[26]Petition for Writ of Certiorari, pp. 11-12.

[27]In any event, there is no merit to Petitioner's argument that he was denied "due process." In his summary of "questions presented," Petitioner claims that the decision violated both the 5th and 14th Amendments to the Constitution of the United States. In his argument, however, Petitioner refers only to the 5th Amendment. Since it has long been established that the 5th Amendment applies only to actions of the federal government, *e.g.*, *Barron v. Mayor of Baltimore*, 32 U.S. (7 Pet.) 243 (1833), it is not clear how the California Supreme Court could have violated the 5th Amendment. Suffice it to say that Petitioner cites *no* authority whatsoever in support of this argument. So far as Respondent can determine, the argument is totally specious.

in the proceedings, both in the court of first instance and in the appellate court, at which the federal questions sought to be reviewed were raised; the method or manner of raising them and the way in which they were passed upon by the court; such pertinent quotation of specific portions of the record, or summary thereof, with specific reference to the places in the record where the matter appears . . . as will show that the federal question was timely and properly raised so as to give this Court jurisdiction to review the judgment on writ of certiorari."

Petitioner has made no attempt to comply with this rule, and clearly cannot do so as to his second and third questions, because those questions were never raised, briefed, argued or decided in the lower courts. Based upon Petitioner's failure to comply with the rules of this Court, this Court should decline to review the questions presented by Petitioner.

Conclusion.

As shown herein, Petitioner is not entitled to a writ of certiorari because the Petition herein raises no substantial federal question, the opinion of the California Supreme Court rests on adequate and independent state grounds and Petitioner failed to present his arguments in a timely and proper manner, and failed to comply with this Court's rules.

It is therefore respectfully submitted that this Court should deny the Petition for Writ of Certiorari.

Respectfully submitted,

SHEPPARD, MULLIN, RICHTER AND HAMPTON,
A Partnership including
Professional Corporations,
GEORGE R. RICHTER, JR.,
WILLIAM M. BURKE,
JEFFREY S. TURNER,
Attorneys for Respondent.

APPENDIX A.

Chronology of Federal Reserve Board Actions Concerning Prepayment Rebates and the Rule of 78's.

July 1, 1969	Truth in Lending Act became effective. The Act does not require prepayment rebate disclosure.
July 1, 1969	Regulation Z became effective. Section 226.8(b)(7) deals with prepayment rebate disclosure.
August 20, 1969	FRB issues Public Information Letter No. 70 discussing the Rule of 78's. Cons. Cred. Guide (CCH) ¶ 30,448 (1969-1974 Tr. Binder).
November 10, 1969	FRB issues Public Information Letter No. 177 discussing the disclosure of the Rule of 78's by name. Cons. Cred. Guide (CCH) ¶ 30,500 (1969-1974 Tr. Binder).
April 17, 1970	FRB issues Public Information Letter No. 307 stating that a creditor may disclose the Rule of 78's by name only and need not explain the formula. Cons. Cred. Guide (CCH) ¶ 30,532 (1969-1974 Tr. Binder).
May 25, 1970	FRB issues Public Information Letter No. 334 stating that section 226.8(b)(7) only requires identification of the Rule 78's by name. Cons. Cred. Guide (CCH) ¶ 30,389 (1969-1974 Tr. Binder).

July 29, 1970	FRB issues Public Information Letter No. 384 stating that a reference to the Rule of 78's by name is sufficient. Cons. Cred. Guide (CCH) ¶ 30,565 (1969-1974 Tr. Binder).
November 25, 1970	FRB issues Public Information Letter No. 427 stating that a reference to the Rule of 78's by name is preferable to citing the statute or reproducing detailed statutory language. Cons. Cred. Guide (CCH) ¶ 30,614 (1969-1974 Tr. Binder).
August 6, 1971	FRB issues Staff Letter discussing the different possible disclosures of the Rule of 78's and concluding that identification by name only is the best alternative. Cons. Cred. Guide (CCH) ¶ 30,725 (1969-1974 Tr. Binder).
December 15, 1972	FRB issues Staff Letter discussing the Rule of 78's. Cons. Cred. Guide (CCH) ¶ 30,916 (1969-1974 Tr. Binder).
December 1972	National Commission on Consumer Finance issues its final report following extensive hearings and studies, which recommends that creditors be permitted to rebate unearned finance charges according to the Rule of 78's. Report of the National Commission on Consumer Finance, *Consumer Credit in the United States* 40-41 (1972).

April 30, 1973	FRB promulgates Official Board Interpretation section 226.818, providing that identification of the Rule of 78's by name only is a sufficient disclosure. 38 Fed. Reg. 12202 (May 10, 1973).
April 30, 1973	FRB proposes to amend section 226.8(b)(7) to provide an additional rebate disclosure and requests public comment. 38 Fed. Reg. 12240 (May 10, 1973).
May 24, 1973	FRB issues Staff Letter discussing section 226.818, the Rule of 78's disclosure requirements and the district court opinion in *Bone v. Hibernia Bank*. Cons. Cred. Guide (CCH) ¶ 31,016 (1969-1974 Tr. Binder).
June 6, 1973	FRB issues Staff Letter explaining its reasons for issuing the Official Board Interpretation, section 226.818, and discussing the district court opinion in *Bone v. Hibernia Bank*. Cons. Cred. Guide (CCH) ¶ 30,983 (1969-1974 Tr. Binder).
July 12, 1973	FRB adopts proposed amendment to section 226.8(b)(7) with minor changes, effective January 1, 1974. 38 Fed. Reg. 19814 (July 24, 1973).
May 14, 1974	FRB issues Public Information Letter No. 794 discussing the Rule of 78's. Cons. Cred. Guide (CCH) ¶ 31,116 (1974-1977 Tr. Binder).

April 21, 1975	FRB issues Public Information Letter No. 885 regarding the Rule of 78's. Cons. Cred. Guide (CCH) ¶ 31,211 (1974-1977 Tr. Binder).
February 4, 1977	FRB issues Official Staff Interpretation FC-0044 regarding the disclosure of the Rule of 78's. Cons. Cred. Guide (CCH) ¶ 31,535 (1974-1977 Tr. Binder), published for public comment, 42 Fed. Reg. 9385 (February 16, 1977).
April 27, 1977	FRB proposes an amendment to section 226.8(b)(7) to simplify the prepayment rebate disclosures by eliminating the requirement that the rebate method be "identified." Various possible disclosures are discussed, and public comments are solicited. 42 Fed. Reg. 23516-17 (May 9, 1977). This amendment was not adopted by the Board. The change proposed by the Board was instead made in revised Regulation Z issued under the Truth in Lending Simplification and Reform Act.
March 22, 1977	FRB issues Public Information Letter No. 1168 discussing the use of the Rule of 78's to identify the rebate provided under state law. Cons. Cred. Guide (CCH) ¶ 31,561 (1974-1977 Tr. Binder).
March 31, 1980	The Truth in Lending Simplification and Reform Act was signed into law, to become fully effective April 1, 1982. Pub. L. No. 96-221, Title VI.

September 24, 1980 FRB issues Staff Letter concluding that state laws (whether statutory or judicially imposed) requiring disclosure of the meaning and implications of the Rule of 78's are inconsistent with Regulation Z.

APPENDIX B.

Listing of All Parent Companies, Subsidiaries and Affiliates of Respondent Security Pacific National Bank (as Required by Supreme Court Rule 28.1).

Name	State of Incorporation
Security Pacific National Bank	A National Banking Association
Security Pacific International Bank	§ 25(a) of the Federal Reserve Act
First Small Business Investment Company of California	California
Equitable Deed Company	California
Security Pacific Equipment Finance (Europe) Inc.	Delaware
Security Pacific National Leasing, Inc.	Delaware
Security Pacific Equipment Leasing, Inc.	Delaware
Security Pacific Commercial Leasing, Inc.	Delaware
PNB Securities Corp.	California
Security Pacific Lease Finance (Europe) Inc.	Delaware
Security Pacific Overseas Corp.	§ 25(a) of the Federal Reserve Act.
Security Pacific Do Brasil S/C Ltda. (Formerly Security Pacific Administracaco e Servicos Ltda.)	Brazil
Security Pacific Overseas Investment Corporation	Delaware
Security Pacific Bank (Panama) S.A.	Panama
The Bank of Canton, Limited	Hong Kong
The Bank of Canton (Nominees) Limited	Hong Kong
Canton Pacific Finance Limited (Formerly Canbank Finance Limited)	Hong Kong
The Bank of Canton Ltd. Macao	Macao
The Bank of Canton (Nominees) Limited Singapore	Singapore
Security Pacific Australia Limited	Australia
Security Pacific International Finance Limited	Canada
Sectras	Delaware
Eden Isle, Inc.	Delaware
Lakeside Utilities, Inc.	Louisiana
Lakeside Marketing Co.	Louisiana
Golf Course, Inc.	Louisiana

Name	State of Incorporation
Pacific Southwest Realty Company	Delaware
SEPAC Acceptance & Lease Services, Inc. (Formerly SEPAC Lease Systems, Inc.)	Delaware
Security Pacific Southwest, Inc.	Delaware
Security Pacific Midwest, Inc.	Delaware
The Bankers Investment Company	Kansas
Central Plains Insurance Company, Inc.	Kansas
Central Plains Life Insurance Company, Inc.	Kansas
Stenstron & Burke, Inc.	Kansas
Sandia Appraisal Co., Inc.	New Mexico
BIC Loans of Cheyenne, Inc.	Wyoming
Security-First Company	California
Security Pacific Capital Corporation	Delaware
Security Pacific Clearing & Services Corp.	Delaware
Security Pacific Corporation	Idaho
Security Pacific Finance Corp.	Delaware
SP Escrow Service, Inc.	Delaware
Security Pacific Finance Corp.	Idaho
SP Insurance Agency, Inc.	Delaware
Security Pacific International Leasing (Europe) Inc.	Delaware
Security Pacific Leasing Corporation	Delaware
Security Pacific Leasing Services Corporation	Delaware
Security Pacific Mortgage Corporation	Delaware
Equity Management Inc.	Colorado
Equity Management of Hawaii, Inc.	Hawaii
The Hasurf Corporation	Hawaii
Kassler Mortgage Service, Inc.	Washington
RT Service Co.	California
The BougainVille Corporation	Hawaii
The Interisland Group, Inc.	Hawaii
Security Pacific Mortgage of Hawaii, Inc.	Hawaii
Security Pacific Escrow, Inc.	Colorado
S.P.M.C. Escrow, Inc.	Delaware
Loan Closing Services, Inc.	Delaware
Rocky Mountain Escrow, Inc.	Delaware
Security Pacific Venture Capital Advisory Corporation	Delaware
Security Pacific Overseas Finance, Inc. (Formerly Security Universe Finance Corporation)	Delaware

Name	State of Incorporation
Security Pacific Finance Limited (Formerly Market Credit Limited)	England
Japan Security Pacific Finance Company, Limited	Japan
Security Pacific Credit (Hong Kong) Limited (Formerly Security Universe (Hong Kong) Limited)	Hong Kong
Security de Espana, S.A.	Spain
Security Pacific Investment Managers, Inc.	Delaware
Security Pacific Financial Services, Inc.	Delaware
Security Pacific Financial Services International Ltd.	Delaware
American Finance System Incorporated	Delaware
General Fidelity Life Insurance Company	Virginia
AFS Management, Inc.	Delaware
Service Supply Corporation	District of Columbia
Rediscount Corporation of America	Virginia
Rediscount Corporation of Louisiana	Louisiana
American Finance Management Corporation	Delaware
Dealers Credit, Inc.	Delaware
Security Pacific Finance Corp.	Arizona
Security Pacific Finance Corp.	Colorado
Colorado Springs Security Pacific Industrial Bank	Colorado
Security Pacific Industrial Bank	Colorado
Security Pacific Finance Corp. of Granite State	Connecticut
Security Pacific Corp. of Illinois	Delaware
Security Pacific Corp. of Kentucky	Delaware
Security Pacific Finance Corp. of Delaware	Delaware
American Finance Corporation of Frederick	Delaware
Security Pacific Finance Corp. of New Hampshire	Delaware
Security Pacific Finance Corp. of Florida	Florida
Security Pacific Finance Corp.	Florida
Security Pacific Finance Corp.	Georgia
Security Pacific Finance Corp.	Indiana
Security Pacific Finance Corp.	Maryland
American Finance Corporation of Maryland	Maryland
American Finance Corporation of Connecticut	Mississippi
Security Pacific Finance Corp.	New Jersey
Security Pacific Finance Corp. Credit Services, Inc.	New York
Security Pacific Finance Corp.	New York
Security Pacific Finance Corp. of Utica	New York
Security Pacific Finance Corp. of Ohio	Ohio

Name	State of Incorporation
Security Pacific Finance Corp.	Ohio
Security Pacific Consumer Discount Company	Pennsylvania
Security Pacific Finance Corp.	Vermont
Security Pacific Finance Corp.	Virginia
Security Pacific Finance Corp. of Louisiana	Virginia
First Fenwick Mortgage Corporation	Virginia
Security Pacific Finance Corp.	West Virginia
Security Pacific Finance Business Center, Inc.	California